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# "NAFTA (North American Free Trade Agreement) and Its Impact on Montana"

Max S. Baucus

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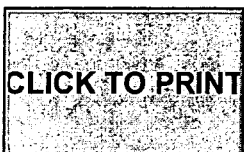
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BAUCUS

COMMENTS BY SENATOR MAX BAUCUS ON NORTH AMERICAN FREE TRADE  
AGREEMENT AND ITS IMPACT ON MONTANA

Montana State University  
April 29, 1991

As chairman of the Senate International Trade Subcommittee, I spend a great deal of my time working on international trade legislation.

Often, people ask me: "Why does a Senator from Montana -- a landlocked state -- spend so much time on international trade issues?"

I always give them the same answer: "Because I believe that expanding America's exports is critical to Montana and to America as a whole. Only through increased international trade can we hope to raise American living standards."

MONTANA AND THE WORLD ECONOMY

Already, our economy is dependent upon trade. Take a look around Montana:

-In most years, 75% to 85% of Montana's wheat crop is exported to Japan, Korea, and other Asian nations.

-In northwest Montana, Plum Creek Timber Company's mills cut lumber and make fiberboard that is exported to Japan and Taiwan.

-Exports of U.S. beef now raise the price of the average Montana steer by \$75 to \$100.

-Metal ore and concentrates mined and refined in Montana are exported to Japan and other markets.

-Aluminum made in Montana finds its way into export markets around the world.

-Many lesser known Montana products, such as fishing flies, jams, and jellies, also find their way into international markets.

-Most Montana households have imported goods ranging from autos to stereos.

And those are but a few examples.

Montana is not an island unto itself. Our economy is tied to the economy of the rest of the U.S. and the rest of the world.

Decisions made in Washington, Tokyo, and Bonn have a direct impact on the Montana economy and Montanans welfare.

The products produced in Montana are as likely to be consumed in Tokyo or Seoul as San Francisco or St. Louis.

We are truly part of a global economy. And if we are to survive and prosper we must take advantage of the opportunities that the world economy offers.

#### THE FAST TRACK

The U.S. Congress is now engaged in a debate on trade policy that has critical implications for the economy of both the state and the nation.

The Congress is debating whether or not to extend what is known as "fast track negotiating authority" to the Administration.

If granted, the fast track would guarantee that the Congress would vote on trade agreements that are negotiated without offering amendments.

Fast track authority does not guarantee that Congress will approve the trade agreement. It only guarantees that Congress will vote it up or down.

The fast track is necessary because the U.S. cannot negotiate trade agreements without a guarantee that Congress will not pull apart a trade agreement with amendments.

Because of bad experiences in the past, other nations will not negotiate with the U.S. without the fast track. The EC refused to begin the last round of GATT negotiations until the U.S. Congress approved fast track negotiating authority.

All recent chief trade negotiators -- from both Republican and Democratic Administrations -- agree that the fast track is essential if the U.S. is to carry on trade negotiations.

The Bush Administration has requested this authority so that it can negotiate two important international trade agreements: the Uruguay Round of GATT Agreements and the North American Free Trade Agreement.

Let's take a look at what those trade agreements could mean to Montana.

#### THE URUGUAY ROUND

Despite its name, the Uruguay Round is not just a negotiation with the nation of Uruguay.

It is a negotiation with more than 100 nations aimed at further lowering barriers to trade worldwide.

It is called the Uruguay Round because the negotiations were launched in Uruguay.

These are extremely complex negotiations involving hundreds of thousands of products. But I would like to highlight two areas in which these negotiations could make a critical contribution to Montana.

First, negotiations are underway in the Uruguay Round to lower tariffs.

Much of the press attention on the negotiations has focused on the new issues of trade in services and protection of intellectual property. There is a widespread perception that tariffs are yesterday's problem.

But tariffs still block billions of dollars of U.S. exports each year.

The U.S. has proposed the complete elimination of tariffs on a variety of products including lumber, paper, aluminum, and non-ferrous metals, like lead and copper.

The U.S. is a very efficient producer of each of these products.

If tariffs were eliminated Montana lumber mills could increase exports to Japan, Korea, and Europe. Montana paper mills could do the same. Montana could send aluminum from Columbia Falls to Europe. And Montana copper and lead could be shipped to Japan and Korea.

Nationwide, U.S. exports would increase by many billions of dollars annually.

The U.S. is also seeking to lower agricultural trade barriers worldwide in the Uruguay Round.

Why has the U.S. put so much emphasis on freer trade in agriculture?

To put it simply, we are pressing for freer trade because foreign agricultural trade barriers cost American farmers \$8 to \$10 billion per year.

The EC's trade barriers and subsidies alone contribute \$7 billion annually to the U.S. trade deficit.

Last year, the EC spent \$11 billion on agricultural export subsidies alone. The U.S. spent \$10.4 billion on its entire farm program. The EC farm program dwarfs that of the U.S. It also depresses farm prices and robs American farmers of export markets.

And the EC is not the only problem. We finally succeeded in convincing Japan to eliminate its beef quota on April 1st. Unfortunately, a 70% tariff remains.

We have made progress getting U.S. agricultural products into Japan, but we have quite a way to go.

Trade barriers also block our agricultural exports to Korea, China, and even Canada -- to name only a few.

If we can lower some of these trade barriers, Montana's already significant exports of wheat and beef could expand further -- greatly improving prospects for Montana agriculture.

#### THE NORTH AMERICAN FREE TRADE AGREEMENT

And the Uruguay Round is only part of the story.

As I mentioned, we are also planning to begin negotiating a free trade agreement between the U.S., Canada, and Mexico known as the North American Free Trade Agreement or NAFTA.

This is significant for Montana since our number 1 and number 4 export markets are Canada and Mexico respectively.

It is unlikely that the NAFTA would have nearly as large an impact on Montana exports as the Uruguay Round, but it could open important markets.

Most of you will probably be surprised to learn that Montana's exports to Mexico are growing faster than those of any other state. Between 1987 and 1989, Montana's exports to Mexico grew a whopping 1500%.

Montana's leading exports to Mexico are agricultural products, food products, and metals.

True, the total volume of exports is still relatively small -- less than \$20 million. But the Mexican market is a real opportunity.

The Canadian market is already opening thanks to the 1988 U.S.-Canada Free Trade Agreement. But if Mexico also agrees to eliminate its trade barriers we can boost exports, of wheat, beef, hay, forest products, metal and other goods.

These negotiations also give us a chance to address long-standing trade problems with Canada on trade in wheat.

#### CONCLUSION

I believe that Montana's farmers and businesses only need a fair shake.

If we are able to compete for new markets without having to face trade barriers, our state can prosper.

That is why I believe extending the fast track and concluding the Uruguay Round and the NAFTA are critical to our future.

Some argue we should not extend the fast track. We should not try to compete, instead we should try to close our markets and hide from the rest of the world.

I strongly disagree with that viewpoint. I criticize other countries for trying to hide behind protectionist walls, and I am no kinder to protectionists here at home.

We cannot bury our heads in the sand. We have to meet the challenges the world throws at us.

Sure there will be problems, but there will be opportunities too.

Let's find a way to solve the problems, and take advantage of the opportunities.

Certainly, we shouldn't conclude a trade agreement that is bad for Montana or bad for America.

But let's allow our negotiators to negotiate. If we do I am confident they will conclude trade agreements that are good for Montana and good for America.

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